

Vermont Hospital Budget Reviews

- Description of a hospital budget process, terminology, and areas of review

Agenda

- Authority & Purpose of the budget
- What is the budget?
- What are the decision-making criteria?
- Key areas of review:
 - Revenue estimates
 - Expenditure change
 - Utilization
 - Capital plans
 - Financial health indicators/benchmarks

Purpose

Title 18 V.S.A. Chapter 221 §§ 9401 & 9451-9457
As described in Rule 7 (Unified Health Care Budget):


- BISHCA is directed to adopt a unified health care budget
- The budget is to serve as the basic framework within which health care costs in Vermont can be controlled, resources directed, and quality and access ensured....
- The unified health care budget shall apply to the hospital budget review process

Description of the Budget Review Process

- Establishes reporting requirements & assumptions
- Examines the information and puts it in context to peers and system
- Provides objective information for judging proposed budgets
- Provides an understanding of hospital trends and policy concerns
- Evaluates budget growth & rate request for sense
- Uses decision making criteria to establish budgets

Hospitals are provided reporting instructions


Instructions will include:



Basic assumptions around costs and revenue estimates	Various schedules designed to display unique budget information	Issues to be addressed in the budget narrative	List of statistical calculations for various measures	Decision making criteria
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Hospitals submit new budget

Hospital budgets will include:



Profit and loss statement, balance sheet, & supporting schedules	Data to support rate request, cost shift, budget increase detail, etc.	A budget narrative that describes the budget and explains why it may differ from Dept. instructions	Responses to questions raised by the Dept. as part of the review	A four year capital plan
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Decision making criteria

- Amount of rate increase and overall budget growth
- Responsiveness to budget assumptions
- Prior period budget performance
- Overall financial health including comparison to national, regional, and instate peers
- Reporting compliance of budget documents and Act 53
- Unique local and state considerations, CON plans, and public comment

What makes up a hospital budget?

- Everything!!

- Revenue and expenditure cost centers, utilization measures, staffing, payer mix – who pays; how much, financial and operating indicators and benchmarks, cash flow, capital spending, hospital narrative describing their circumstances

- The income statement provides us a summary.

Vt. Hospital System Budget

Profit & Loss Statement Glossary

GROSS PATIENT CARE REVENUE	Total charges billed by hospitals
Disproportionate share	Payments to hospitals for uncompensated care
Free care & Bad debt	Charges never collected by hospitals by those that can't or do not pay
Deductions from revenue	Charges never collected from Medicare, Medicaid, and Commercial insurance
NET PATIENT CARE REVENUE	Actual dollars earned from all billed charges
Other Operating revenue	Primarily parking, cafeteria, rental income
TOTAL OPERATING REVENUE	Net patient revenues plus parking, cafeteria, rental income, etc.
OPERATING EXPENSE	
Salaries (NON-MD)	Total wages paid to all non-physician staff, both full and part time
Fringe benefits (NON-MD)	The various fringe benefits paid on behalf of employees
Physician fees/salaries/contracts	Payments to physicians
Provider tax	Tax paid to the state, helps support disproportionate share
Depreciation/amortization	Annual allowance for the reduction in capital asset values
Interest	Interest paid for bonds and other loans
Other operating expense	Insurance, medical surgical supplies, drugs, utilities, etc
TOTAL OPERATING EXPENSE	total of above expenses
NET OPERATING INCOME (LOSS)	All net revenue less expenses - often called "Bottom line" or profit
Non-operating revenue	Primarily investment income
EXCESS (DEFICIT) - REV OVER EXP	Operating surplus plus investment income - "Bottom-bottom line"

Vt. Hospital System Budget

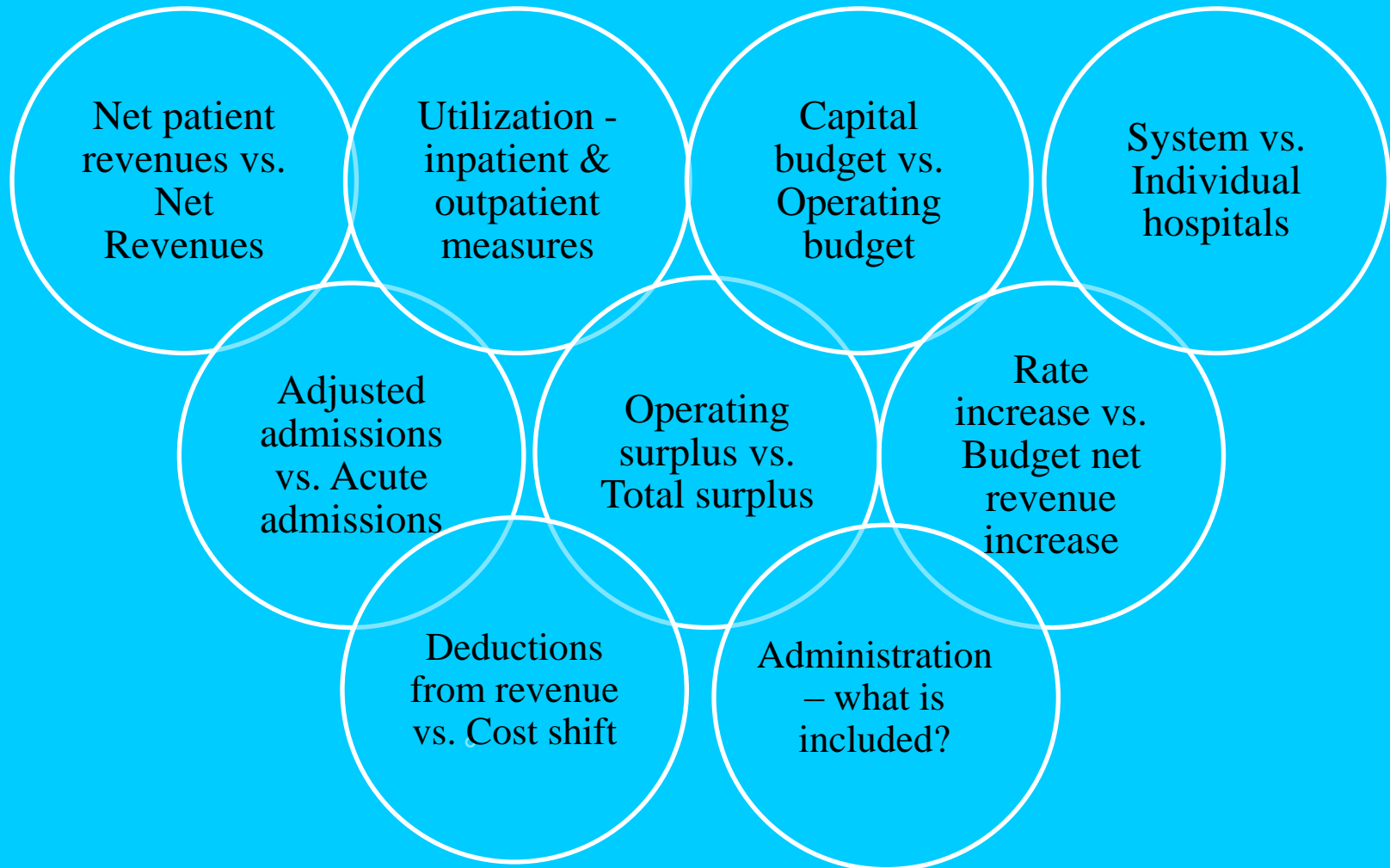
Profit & Loss Statement Comparison

	<u>BUD 11</u>	<u>BUD 12</u>	<u>% Change</u>
GROSS PATIENT CARE REVENUE	\$ 3,763,295,393	\$ 4,067,880,877	8.1%
Disproportionate share	36,958,158	37,805,524	2.3%
Free care	(47,808,839)	(46,997,546)	1.7%
Deductions from revenue	(1,784,870,681)	(1,999,857,329)	-12.0%
NET PATIENT CARE REVENUE	\$ 1,967,574,031	\$ 2,058,831,526	4.6%
Other Operating revenue	\$ 39,293,416	\$ 54,177,724	37.9%
TOTAL OPERATING REVENUE	\$ 2,006,867,447	\$ 2,113,009,250	5.3%
Salaries (NON-MD)	\$ 639,783,558	\$ 665,889,611	4.1%
Fringe benefits (NON-MD)	\$ 216,008,149	\$ 221,145,052	2.4%
Physician fees/salaries/contracts	\$ 275,840,940	\$ 300,021,522	8.8%
Provider tax	\$ 94,989,110	\$ 110,964,886	16.8%
Depreciation/amortization	\$ 102,797,130	\$ 106,522,446	3.6%
Interest	\$ 29,544,280	\$ 29,186,651	-1.2%
Other operating expense	540,751,107	560,336,354	3.6%
Bad Debt expense	\$71,964,403	\$76,734,882	6.6%
TOTAL OPERATING EXPENSE	1,971,678,677	2,070,801,405	5.0%
NET OPERATING INCOME (LOSS)	\$ 35,188,770	\$ 42,207,845	19.9%
Non-operating revenue	\$ 22,993,002	\$ 30,822,524	34.1%
EXCESS (DEFICIT) - REV OVER EXP	\$ 58,181,772	\$ 73,030,369	25.5%

Key areas of review

- Revenues and reimbursement
- Expenditure change
- Financial health
- Budget performance/discipline
- Capital plans

Distinguish key terms, perspectives



Review of revenues

- Payer revenues examined for:
 - Volume of services
 - Reimbursement assumptions
- Estimates of bad debt/free care
- Determination of rate request

Review of revenues

- Rate request is influenced by:
 - Volume of services by payer
 - Shift in volume of services by payer
 - Change in intensity of services
 - Reimbursement assumptions
 - Estimates of bad debt/free care
 - Overall cost growth

Review of expenditures

- The examination includes:
 - Amount of inflationary growth
 - Measuring variable costs linked to utilization
 - The cost of new programs
 - Capital costs impacts
 - Changes to the overall base
 - Reporting/acquisitions changes

Review of capital expenditures

- Age of plant trends, level
- Trend of capital investments
- Ability to finance
 - Liquidity
 - Debt structure

Review of financial health

- Analysis of trends and peer comparisons
 - financial health indicators
 - operating indicators
 - Administrative data

Review of budget performance

- Analyze and understand:
 - net revenue variance
 - expenditure variance
 - operating surplus results

Types of measures

- Capital structure
 - Long Term Debt to capitalization
 - Age of Plant
- Capital investment
 - Capital budget as a % of depreciation
 - Net property/plant/equip per staffed bed
- Reimbursement
 - Bad debt and free care as a % of gross revenue
 - Net revenue to gross by payer

Types of measures

- Productivity
 - FTEs per adjusted occupied bed
 - Overhead as a % of operating budget
- Costs
 - Cost per adjusted admission
 - Salary & benefits per FTE
- Liquidity
 - Cash on hand
 - Current ratio

Types of measures

- Utilization
 - Acute admissions
 - Acute length of stay
 - Outpatient visits, adjusted admissions, days
- Payer mix
 - Payer as a per cent of total gross revenue business
 - Payer as a per cent of total net revenue business
- Per unit
 - Net revenue per adjusted discharge
 - Gross revenue per discharge

Policy considerations for budget change

- System versus individual budget determination
- How do we determine the appropriate level of growth?
- Define what is considered a “good budget”?
 - lower net patient revenue growth or low per unit costs or low rate
- What is a fair approach for measuring budget performance?
- How will the budget be enforced?
- How do we determine the right amount to spend on capital?
- How should we evaluate when comparing to different peers?
 - Average vs. median vs. X percentile
- What are the pros and cons of doing multi-year budgeting ?

Summary

- The budget process is directed by statute
- We have a broad depth of budget information
- Decision making has many perspectives
- A hospital budget submission is comprehensive
- Key areas of review are quite broad
- There is a myriad of available measures
- There are a number of policy issues to consider in developing what you want from the process